

Message Text

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ACTION STR-07

INFO OCT-01 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01
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INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00
AID-05 SS-15 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02
OMB-01 DOE-15 OIC-02 AF-10 ARA-10 EA-10 EUR-12
NEA-11 /169 W

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P 020816Z JUN 78
FM USMISSION GENEVA
TO SECSTATE WASHDC PRIORITY 0341
INFO ALL EC CAPITALS

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USMTN

USEEC

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E.O.11652:N/A
TAGS: ETRD, MTN, EAGR, EEC
SUBJECT: US/EC AGRICULTURAL BILATERAL MAY 30-31

1. SUMMARY. ON MAY 30 AND 31, THE U.S. AND THE EC HELD AGRICULTURAL DISCUSSIONS WHICH WERE USEFUL FOR FACILITATING THE UPCOMING GRAINS NEGOTIATIONS IN LONDON. THERE WAS ALSO A CONSTRUCTIVE DISCUSSION, BUT NOT MUCH PROGRESS, ON SUBSIDIES AND SPECIFIC PRODUCT REQUESTS. THE PARTIES NOTED THEIR SATISFACTION THAT PROGRESS WAS BEING MADE IN MEAT AND DAIRY. IT WAS AGREED THAT AN ENORMOUS AMOUNT OF WORK WOULD HAVE TO BE DONE BEFORE THE JULY 15 CONCLUSION AND THAT VERY FREQUENT BILATERALS WOULD BE ESSENTIAL UNTIL
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THEN. END SUMMARY.

2. EC INTRODUCTION. (EC REPRESENTED BY RABOT, LUYTEN, VAN PHI, PIZUTTI.) IN HIS INTRODUCTION, MR. RABOT NOTED THE SEVERE TIME CONSTRAINTS IN MEETING THE JULY 15 DEADLINE. HE ALSO SUGGESTED THAT BOTH THE UNITED STATES AND THE EC SHOULD PRESS HARD ON JAPAN. HE SAID THAT IN THE

113 COMMITTEE MEETING LAST FRIDAY, MEMBER COUNTRIES WERE IN THE POSTURE OF WAITING FOR OTHERS TO MOVE FORWARD. HE SUGGESTED THAT MIGHT STILL BE THE CASE ON JULY 14, AND THEREFORE THE NEGOTIATORS WOULD HAVE TO MOVE AS FAR AS THEY COULD.

3. U.S. INTRODUCTION. (U.S. REPRESENTED BY MCDONALD, BOSWORTH, SAYLOR, STARKEY, FEKETEKUTY, ROWNY.) AMB. MCDONALD POINTED OUT THAT THE NEGOTIATORS WOULD HAVE TO SEE HOW CLOSE THEY COULD COME TO A FINAL PACKAGE, RECOGNIZING THAT EACH SUBPART WOULD NOT HAVE TO BE BALANCED, BUT THAT IT WOULD HAVE TO BE A BALANCED WHOLE. HE STRESSED THAT THE MAIN PARTS OF THIS BALANCED PACKAGE WOULD INCLUDE:

A) SETTING OUT SOME GENERAL UNDERSTANDINGS ON AGRICULTURE;

B) A SERIES OF EFFORTS ON STABILIZATION THROUGH COMMODITY AGREEMENTS (E.G., WHEAT, COARSE GRAINS, MEAT, AND DAIRY);

C) REQUEST/OFFERS ON SPECIFIC AGRICULTURAL PRODUCTS FOR GREATER U.S. ACCESS; AND

D) THE APPLICABILITY OF CODES, PARTICULARLY STANDARDS, SUBSIDIES AND SAFEGUARDS, TO THE COMMODITY AGREEMENTS AS WELL AS TO ALL OTHER AGRICULTURAL PRODUCTS.
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4. WHEAT AGREEMENT. AMBASSADOR MCDONALD LED OFF WITH A DISCUSSION OF OUTSTANDING ISSUES ON GRAINS, IN ORDER TO FACILITATE THE GRAINS MEETINGS SCHEDULED TO BEGIN IN LONDON ON JUNE 5:

A) NOTIONAL PRICES--THE QUESTION OF HOW TO PRESENT THE NOTIONAL PRICE ISSUE WAS RAISED WITH GENERAL AGREEMENT AS IN WASHINGTON THAT THE NOTIONAL PRICES WOULD BE FIXED PRICES. AT THE LOW END IT WOULD BE FIXED AT THE PRICE THAT HAPPENED TO BE AT OR CLOSE TO THE U.S. LOAN PRICE. THERE WOULD BE TRIGGER POINTS ABOVE THE LOWER NATIONAL PRICES AND BELOW THE UPPER NOTIONAL PRICE WHICH WOULD TRIGGER CONSULTATIONS ON ADDITIONAL MEASURES NEEDED TO KEEP MARKET PRICES WITHIN THOSE BOUNDS (E.G., STOCKING, DESTOCKING ACTIONS ON WHEAT).

B) ADDITIONAL MEASURES--THE "ADDITIONAL MEASURES" WOULD HAVE TO BE RECIPROCAL AND EQUAL, BUT WOULD NOT NECESSARILY BE THE SAME TYPES OF ACTIONS SINCE THEY WOULD BE GEARED TO THE FRAMEWORK OF EACH PARTICIPANT'S AGRICULTURAL POLICIES. RABOT STRESSED THE NEED FOR EXPRESSING IT THIS WAY, BECAUSE THE GERMANS FEARED THAT

IT MIGHT LEAD TO PRODUCTION CONTROLS. RABOT SAID HE
THOUGHT HE COULD WORK THAT PROBLEM OUT SO LONG AS THE
EC DID NOT COMMIT ITSELF TO SPECIFIC ACTIONS.

C) SUPPLY ASSURANCES--THE EC ASKED IF IT WAS
LEGALLY POSSIBLE FOR THE UNITED STATES TO ASSURE OTHER
SIGNATORIES A GUARANTEED SUPPLY AT A SPECIFIC PRICE. OR,
FAILING THAT, COULD THE U.S. ASSURE COUNTRIES SOME PER-
CENTAGE OF THEIR HISTORICAL IMPORTS DURING PERIODS OF
SHORTAGE. THE U.S., STRESSING THE NATURE OF OUR FREE
MARKET AND LACK OF GOVERNMENT INVOLVEMENT IN FOREIGN
MARKETING, SAID THAT IT COULD TAKE ACTIONS TO HELP ASSURE
SUPPLIES, BUT THAT IT COULD NOT GUARANTEE THEM. THE U.S.
WOULD COMMIT TO TAKE NO EXPORT RESTRAINTS (EMBARGOES OR
EXPORT TAXES), SO THAT IMPORTERS WOULD HAVE THE SAME CALL
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OMB-01 DOE-15 OIC-02 AF-10 ARA-10 EA-10 EUR-12
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ON SUPPLIES AS THE DOMESTIC MARKET, BUT PREFERENTIAL

ACCESS OVER DOMESTIC INTERESTS WOULD NOT BE POSSIBLE. THE U.S. SAID, THOUGH, THAT IT COULD DISCUSS PREFERENTIAL RELEASE OF STOCKS FROM GOVERNMENT-CONTROLLED STORAGE. THE EC NOTED THAT INABILITY TO GUARANTEE SUPPLY OR GUARANTEE PRICES WOULD POSE PROBLEMS WITH THE LDC'S AND JAPAN.

D) LDC'S--THE EC SAID THAT IF NO LDC'S COULD BE BROUGHT ALONG AS MEMBERS, THE EC WOULD BE POLITICALLY UNABLE TO SUPPORT AGREEMENT. THE U.S. SAID THAT THERE ARE ELEMENTS, SUCH AS STOCKING ARRANGEMENTS AND COMMITMENTS, THAT COULD BE DEvised IN FAVOR OF THE LDC'S. BUT BRINGING THESE OUT TOO SOON IN THE DISCUSSIONS COULD BE TO OUR DISADVANTAGE BECAUSE THEY WOULD BE VIEWED BY LDC'S AS "APPETIZERS." THE U.S. SAID THAT IT ABSOLUTELY COULD NOT AGREE TO NEW FINANCIAL RESOURCES FOR LDC'S IN LIMITED OFFICIAL USE

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THE FRAMEWORK OF A WHEAT AGREEMENT, THOUGH THE WORLD BANK HAS INDICATED A WILLINGNESS TO FINANCE CONSTRUCTION OF STORAGE FACILITIES AND THE IMF HAS INDICATED A WILLINGNESS TO MAKE AVAILABLE RESOURCES FROM THE BUFFER STOCK FINANCING FACILITY FOR LDC PARTICIPANTS IN A WHEAT AGREEMENT. THE U.S. SAID THAT IT COULD ALSO INCREASE ITS COMMITMENT TO THE FOOD AID CONVENTION, BUT THAT WE WOULD ALL HAVE TO BE SUBTLE ON THE ISSUE OF HOLDING THE FOOD AID CONVENTION HOSTAGE FOR RENEWAL OF THE IWC.

E) SIZE OF STOCKING--RABOT SAID THAT MEMBER STATES, PARTICULARLY GERMANY, HAD GIVEN THEM BIG PROBLEMS WITH THE SIZE OF THE STOCKS. GERMANY IS WORRIED ABOUT THE COST OF CARRYING THE STOCKS. A DISCUSSION OF THE CALCULATION OF THE SIZE OF THE STOCK FOLLOWED, IN WHICH IT WAS CLEAR THAT THE METHOD OF CALCULATION WAS DIFFERENT--THE EC CALCULATES IN TERMS OF VARIATIONS IN TRADE, WHEREAS THE U.S. CALCULATES IN TERMS OF VARIATIONS IN PRODUCTION. THE U.S. INSISTED ON ASKING FOR THE HIGHEST PRACTICAL AMOUNT OF STOCKING, 30 MILLION TONS, STRESSING THAT AN AGREEMENT WOULD NOT BE CREDIBLE WITHOUT A SUFFICIENT STOCK. U.S. ALSO THOUGHT THAT THE INITIAL TARGET FOR THE RESERVE STOCK SHOULD ALLOW FOR THE POSSIBILITY THAT NOT ALL COUNTRIES MIGHT PARTICIPATE. THE EC SAID THAT THEY COULD PROBABLY AGREE TO LAY LOW IN THE EARLY DISCUSSIONS OF THE SIZE OF THE STOCK, ALLOWING THE U.S. TO TAKE THE LEAD WITH THE 30 MILLION TON FIGURE. THAT WAY, RABOT SPECULATED THAT WE MIGHT EVENTUALLY COME OUT WITH A MUTUALLY SATISFACTORY NUMBER.

5. COARSE GRAINS. RABOT BEGAN THE DISCUSSION BY SAYING THAT HE WAS INSTRUCTED IN THE 113 COMMITTEE MEETING TO MAINTAIN A POLICY IN COARSE GRAINS THAT WAS IN PARALLEL

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WITH WHEAT. HE LOOKED FOR A SYSTEM OF NOTIONAL PRICES, WITH THE U.S. TAKING A MORE FIRM POSITION ON STOCKING AND OTHER STABILIZATION MEASURES. THE U.S. EXPRESSED SKEPTICISM THAT OTHER COUNTRIES WOULD BE ABLE TO GO ALONG WITH SUCH A FIRM AGREEMENT, POINTING OUT THAT THE UNITED STATES HAD ALREADY BEEN CRITICIZED FOR TALKING ABOUT A POSSIBLE AGREEMENT ALONG THE LINES OF OPTIONS 3 OR 4. MOREOVER, THE U.S. SAID THAT IT COULD NOT CONSIDER SUCH AN AGREEMENT UNLESS WE GOT UTILIZATION OR OTHER MARKET ACCESS COMMITMENTS FOR THE U.S. FEED GRAINS. WITH RESPECT TO THE OPPOSITION OF OTHER COUNTRIES, RABOT RESPONDED THAT HE WOULD BE GIVING A "WARNING" TO GARLAND OF AUSTRALIA ON JUNE 8. HOWEVER, HE AGREED THAT THE EC WOULD HAVE TROUBLE SELLING A MORE SUBSTANTIVE ARRANGEMENT IN COARSE GRAINS IF THE U.S. IS NOT AN ADVOCATE. WITH RESPECT TO MARKET ACCESS COMMITMENTS, RABOT NOTED THAT THE EC WOULD NOT BE ABLE TO CONSIDER SUCH COMMITMENTS EXCEPT IN THE FORM OF A POLITICAL COMMITMENT INCORPORATED IN A GENERAL UNDERSTANDING ON AGRICULTURAL TRADE. RABOT COMPLAINED THAT THE U.S. WAS BACKING OFF ITS EARLIER COMMITMENT AND INDICATED THAT LACK OF PROGRESS ON A COARSE GRAINS AGREEMENT COULD MAKE IT DIFFICULT TO MAKE PROGRESS IN THE WHOLE GRAINS AREA, INCLUDING WHEAT. MCDONALD CONTENDED THE U.S. WAS STICKING STRICTLY BY THE GENERAL UNDERSTANDINGS DEVELOPED IN THE APRIL BILATERAL IN WASHINGTON BUT WOULD GO NO FURTHER.

6. SUBSIDIES. AMBASSADOR MCDONALD BEGAN BY STATING THAT THE MAIN AREA OF CONCERN FOR THE UNITED STATES WAS ACCESS TO THIRD COUNTRY MARKETS. THE U.S. NEEDS TO HAVE UNDERSTANDINGS ON GUIDELINES FOR AVOIDING DISTORTIONS RESULTING FROM EXPORT SUBSIDIES. THE EC SAID THAT EVERYTHING THE UNITED STATES WAS ASKING FOR WAS ALREADY IN ARTICLE XVI, AND GOING FURTHER POSED TWO PROBLEMS:

(1) POLITICAL DIFFICULTIES ARISING FROM CHANGING
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AN INTEGRAL PART OF THE CAP; AND

(2) PRACTICAL DIFFICULTIES IN FINDING A NEW CONCEPT THAT COULD TAKE THE PLACE OF THE EQUITABLE SHARES

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OMB-01 DOE-15 OIC-02 AF-10 ARA-10 EA-10 EUR-12
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CONCEPT IN ARTICLE XVI.

IN THE DISCUSSION THAT FOLLOWED, THE EC DID NOT CLOSE ANY
DOORS, BUT ELABORATED ITS CONCERNS ABOUT BEING FROZEN
INTO MARKET SHARES WHICH ARE BASED ON HISTORICAL TRADE,
WHICH WOULD EFFECTIVELY RESTRICT THEM FROM ANY NEW
MARKETS OR ANY EXPANSION IN OLD MARKETS. IT WAS AGREED
THAT THERE WERE THREE BASIC ELEMENTS WHICH NEEDED TO BE
LOOKED AT: (1) A FURTHER ELABORATION OF THE CONCEPT OF
EQUITABLE SHARES, TOWARD THE CONCEPT OF AUGMENTATION OF
SHARES OR ENHANCEMENT OF MARKET POSITION OVER A REPRESENT-
ATIVE PERIOD; (2) SOME UNDERSTANDING ON WHAT A REPRESENT-
ATIVE PERIOD MIGHT BE; AND (3) A BETTER DEFINITION OF THE
MARKET TOWARDS SOMETHING MORE MEANINGFUL THAN THE GLOBAL
MARKET CONCEPT NOW IN ARTICLE XVI. RABOT SAID HE THOUGHT
SOME OF THESE CONCEPTS COULD BE INCORPORATED IN AN OVERALL
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UNDERSTANDING ON AGRICULTURE, BUT HE COULD NOW ONLY SEE

HIS WAY CLEAR ON A CLARIFICATION OF THE REPRESENTATIVE PERIOD. THE EC SUGGESTED THAT ELABORATION OF SUBSIDY COMMITMENTS IN PARTICULAR COMMODITIES WOULD BE PREFERABLE TO GENERAL RULES ON SUBSIDIES. IT WAS AGREED THAT FURTHER DISCUSSIONS WOULD BE NEEDED ON THE THREE POINTS OF DIFFERENCE AND THAT THE U.S. WOULD TAKE THE LEAD IN DRAFTING SOME IDEAS.

7. DAIRY

A) INTRODUCTION. STARKEY NOTED THE NEW, CONSTRUCTIVE U.S. ATTITUDE ON HELPING TO ARRIVE AT AN AGREEMENT ON DAIRY. HE SAID, HOWEVER, THAT THERE WERE MANY DIFFICULT LEGAL QUESTIONS RAISED BY THE CODE WHICH USDA LAWYERS ARE NOW LOOKING INTO. EC THOUGHT PROGRESS WAS SATISFACTORY AT THIS POINT.

B) NEW ZEALAND. RABOT ASKED WHETHER THE UNITED STATES WOULD HELP THE EC ON ABSORBING SOME NEW ZEALAND BUTTER. AMB. MCDONALD SAID THAT THE U.S. WAS WILLING TO TO DISCUSS THIS PROBLEM AS A PART OF THE OVERALL DEAL BUT HAD TAKEN NO DEFINITIVE DECISION. STARKEY SAID THAT WE MIGHT BE ABLE TO DO SOMETHING MORE EASILY ON CHEESE (AMERICAN AND CHEDDAR TYPE).

C) CHEESE. STARKEY SAID THAT THE U.S. WAS CONFUSED ABOUT THE EC'S CHEESE REQUEST. HE SAID THAT IF THE EC CLARIFIES IT THIS WEEK, WASHINGTON COULD ACT ON IT FAIRLY RAPIDLY. THE EC NOTED THE REQUEST AND AGREED TO FOLLOW-UP CONSULTATIONS. (THESE WILL BE HELD FRIDAY IN GENEVA.)

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8. MEAT

A) INTRODUCTION. THE PARTIES NOTED THAT THERE WERE NO MAJOR U.S./EC PROBLEMS HAMPERING FURTHER PROGRESS.

B) SOUTH AMERICA. RABOT SAID THAT THE EC WAS DISCUSSING THE QUESTION OF INDUSTRIAL MEAT WITH THE SOUTH AMERICANS AND SUGGESTED THAT WE THINK ABOUT THE RAMIFICATIONS FOR THE U.S.

C) HOTEL QUOTAS. AMBASSADOR MCDONALD STRESSED THE NEED FOR EXPANDED ACCESS FOR HOTEL-QUALITY BEEF INTO THE EC MARKET. MR. PIZZUTI REPLIED THAT THE EC IS NOW PUTTING A PROPOSAL BEFORE MEMBER STATES, AND THAT HE HOPED THE EC WOULD BE ABLE TO PRESENT IT AT THE NEXT MEAT SUBGROUP MEETING.

9. SPECIFIC PRODUCT REQUESTS

A) CITRUS. THE U.S. REITERATED ITS REQUEST ON CITRUS. MR. RABOT SAID THAT THE EC WILL LOOK AT REDUCING THE OUT-OF-SEASON DUTY ON CITRUS. HE SUGGESTED THAT IT WOULD BE EASIER TO SELL IF THE U.S. COULD SAY THAT SHIPMENTS WOULD LIKELY BE SMALL, SAY 20,000 TONS.

B) TOBACCO. THE U.S. REITERATED ITS TOBACCO REQUEST. PIZZUTI ARGUED THAT THE INCIDENCE OF THE CURRENT TARIFF ON HIGHER PRICED TOBACCO IS ACTUALLY LOWER THAN ON THE LOW PRICED TOBACCO. AFTER AN EXTENSIVE DISCUSSION OF THE U.S. POSITION AND EMPHASIS ON THE POLITICAL IMPORTANCE OF THIS SECTOR BY MCDONALD, RABOT ALLOWED THAT IT WOULD PROBABLY BE EASIER FOR THE EC TO DO SOMETHING IN TOBACCO THAN IN SOME OTHER AREAS.

C) POULTRY. THE U.S. REITERATED ITS REQUEST ON POULTRY, AND ADDED A NEW IDEA FOR A REQUEST FOR THE ABOLITION OF THE SUPPLEMENTAL LEVIES ON TURKEY PARTS FOR LIMITED OFFICIAL USE

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15,000 TONS OF ANNUAL SHIPMENTS PLUS 5 PERCENT ANNUAL GROWTH. THE EC THOUGHT THIS REQUEST WOULD BE EXTREMELY HARD TO MEET.

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C O R R E C T E D C O P Y (TEXT--SUBPARA 9.D)

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D) OTHER PRODUCTS. THE U.S. REITERATED ITS REQUEST ON OTHER PRODUCTS, INCLUDING RICE, MEAT, TABLE GRAPES, ALMONDS, PRUNES, AND CANNED FRUITS. ON THESE, RABOT FELL BACK INTO HIS OLD POSTURE: EITHER THEY REPRESENTED A CAP ON THE CAP OR THAT ANY RESPONSE ON HIS PART WOULD EXCEED HIS INSTRUCTIONS.

E) EC REQUEST FOR BILATERAL. THE EC REMINDED THE U.S. THAT THEY HAD ASKED FOR A BILATERAL TO EVALUATE THE AGRICULTURAL REQUEST/OFFER BALANCE (I.E., HOW OUR OFFERS NOW STANDING STACK UP). AMB. MCDONALD RESPONDED THAT THE BALANCE WOULD OCCUR IN THE TOTAL PACKAGE AND NOT NECESSARILY IN PRODUCT AREAS. HE INSISTED THAT WE LIMITED OFFICIAL USE

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SHOULD REVIEW IN DETAIL REQUESTS AND OFFERS FROM BOTH SIDES AND RESERVE STRIKING A BALANCE UNTIL THE PACKAGE COULD BE ASSESSED.

10. TIMING. RABOT AND AMB. MCDONALD AGREED THAT DURING THE FIRST WEEK OF THE GRAINS TALKS, THE PARTIES TRY AND GET THE ELEMENTS OF A BASIC AGREEMENT ON GRAINS ON PAPER. THEY DISCUSSED THE POSSIBILITY OF USING JUNE 13 FOR A REVIEW MEETING; AT SUCH A MEETING, IF THINGS WERE NOT MOVING IN THE GRAINS TALKS, THEY WOULD TRY TO GET THEM BACK ON TRACK. THE EC SAID THAT IT WOULD BE MEETING FROM TIME TO TIME THROUGHOUT THE MONTH OF JUNE WITH ITS MEMBER STATES AND WITH THE U.S. DELEGATION. THEY CONFIRMED THE JUNE 19 BILATERAL IN WASHINGTON TO BE ATTENDED BY VP HAFERKAMP AND AMB. STRAUSS. THEY ALSO CONFIRMED THEIR WILLINGNESS TO HOLD A TRILATERAL PLUS CANADA MEETING ON JUNE 20. THE EC WILL BE HAVING A COUNCIL OF MINISTERS MEETING OF FOREIGN MINISTERS ON JUNE 27 (THIS WOULD BE AN IMPORTANT REVIEW OF THE ENTIRE MTN PACKAGE). RABOT WARNED THAT IF THERE WAS NO CLEAR PROGRESS ON GRAINS BY THE SECOND WEEK IN JUNE, HE BELIEVES THE ENTIRE AGRICULTURAL MTN PACKAGE WILL BE IN JEOPARDY.

11. DRAFTED BY ROWNY. MCDONALD

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Message Attributes

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Subject: US/EC AGRICULTURAL BILATERAL MAY 30-31
TAGS: ETRD, EAGR, US, MTN, EEC
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/1d67147d-c288-dd11-92da-001cc4696bcc
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